DOW THEORY LETTERS INC.

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Mar. 12, DJIA 987.64; PTI 556; A-D ratio -22.40
Mar. 19, DJIA 979.85; PTI 554; A-D ratio -22.89

AMATEUR and PROFESSIONAL: The market's main function (aside from providing capital to American industry) is to discount, to look ahead. The market moves up or down, not on the news of today, but on what the best minds and the strongest money believe will happen three to six months or even a year from today.

From the standpoint of the professional or the businessman, this barometric property of the market is a marvel. From the public's standpoint, it is a vicious trick. Why is the market such a tremendous help (or potentially so) to the businessman? Because he knows that the Averages, properly interpreted, can steer him through the currents of business and the economy with an accuracy unmatched by any of the economists, the forecasters or the trade publications.

To the professional (the man willing to give serious study to Wall Street), the market is a wonder because he knows that if he reads the price movement correctly, and if he properly aligns his investments with the great primary trend, then he is on the road to profits.

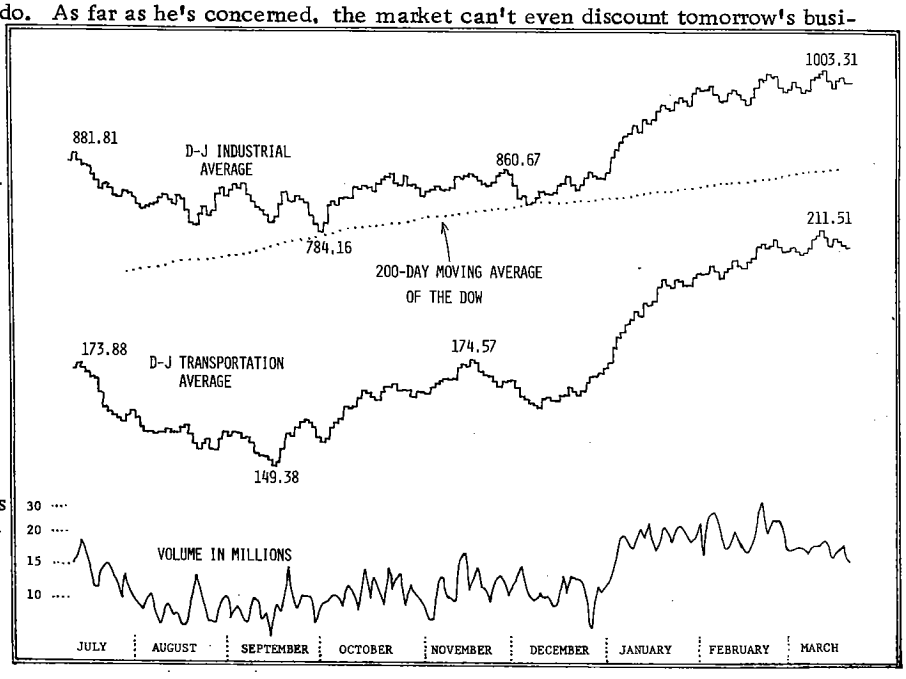
As for the public, as usual they want it all for nothing. And on Wall Street there is no such thing as a free ride. As a rule, the only ride the amateur gets is that ride over the top of a bull market and down the other side. Following which, the poorer (but seldom wiser) participent will probably complain about "the thieves of Wall Street" or his "rotten luck at ever having picked up that first bullish issue of the Wall Street Journal."

So to the amateur, the market is nothing more than a variation of Las Vegas with the added disadvantages of (1) paying commissions, and (2) having to wait weeks and even months before he is taken out with his inevitable losses. I've often wondered about the psychology of a man who will painstakingly study all the automobile literature and engine specifications before he'll spend $3500 on a car. But the same man, after five minutes of hearsay and a thirty second rumor, will plop down twice that amount on a stock he doesn't know anything about in a market he doesn't understand. The brokers may call it "buying a share in America," but I call it a sure-fire way of spreading the wealth (and I assume my readers know in which direction the wealth is spreading).

It has been said that on a deep level life is a tragedy, on a surface level life is a comedy. Something in the same vein can be said about Wall Street. On a deep level, the market is a serious study and one that makes sense. On a surface level, the market is a series of mindless rallies and declines, an exercise in financial insanity.

How about the market since late 1974? The "nasty" (or should I say deceptive) thing about this bull market is the way it plowed persistently upward, even while the agony of the 1973-74 market crash was still fresh in the public's mind. "One minute the Dow is at 577 and the whole economy is collapsing," mumbles the man on Main Street, "and the next minute the Dow is at 700, 800 and then 1000." It's all more than a man can digest in one adult lifetime. "What happened to the blasted recession?" our friend from Main Street growls. "I can see why the Dow was down in the 500's in 1974; it was there because everybody I knew was either scared, broke or scrambling for a job. But what the devil is so wonderful now, and why is the Dow worth double what is was in 1974?"

And with that our friend sells what few shares he has left, because to him a "Dow near 1000" is sheer nonsense, and he does not believe that the market can do anything he can't do. As far as he's concerned, the market can't even discount tomorrow's business conditions, much less conditions next month or three or four months ahead.



BULL TIDE: People (Main Streeters and Wall Streeters) have a tendency to lose sight of the big picture while devoting perhaps 90% of their attention to the news of the day or the hour (assuming, that is, that they believe there is a big picture at all). To counteract this tendency, I have been harping on my thesis that this is a primary bull market, a tidal advance, not a series of disconnected upward pops and blips brought on by professional manipulation, political switch-pulling, "too much money" or inflation or what have you.

One of the extraordinary phenomenons about this period is that people are ready to drop their stocks and run on almost any pretext. There is just very little conviction about this being a primary bull market. All of which is constructive and healthy

 for the upward trend. It's one of the reasons for the persistence of the advance from the late 1974 lows.

Another fact that is just not understood by the public and most professionals is as follows: This is the first time in history that a newly confirmed primary bull market has approached and attacked the 1000 level on the Dow. In 1966 the Dow closed within 5 points of the 1000 level, but that bull market was 17 years old when it tried for 1000! The 1966 effort ended in failure. In late 1968 a second attack on the 1000 level took place, and in late 1972 a third attempt occurred. Both the 1968 and 1972 attempts took place within the framework of a primary bear market. I wrote at the time that these abortive efforts were a result of all-out Government inflation policies. But despite the massive inflation, the primary bear trend held intact. The 1968 and 1973 upward stabs ended in failure and collapse.

I see a different situation today. A new primary bull market began in late-1974; it was confirmed as such by Dow Theory on January 27, 1975. Now, fourteen months after the confirmation, the Dow has again attacked the 1000 level. Today again, it appears that the market could be dealing with failure. But I believe that this is an assumption which will prove to be incorrect. In due time I believe the Dow will push above the 1000 mark. And this action (once the Dow is firmly established above 1000) will fire the market into another broad primary bull swing.

There is no question about it, there are a number of conflicting technical indications at this time. On March 15 the negative volume index (see Letter 652) broke to a new low for the year). When the negative volume index broke to a new low in April, 1975, it signalled five to six months of consolidation. This could easily happen again, but not necessarily. If we do get that kind of long "decline-consolidation," I believe that bearish sentiment will build up to a high level again, thus setting the stage for a massive assault on Dow 1000.

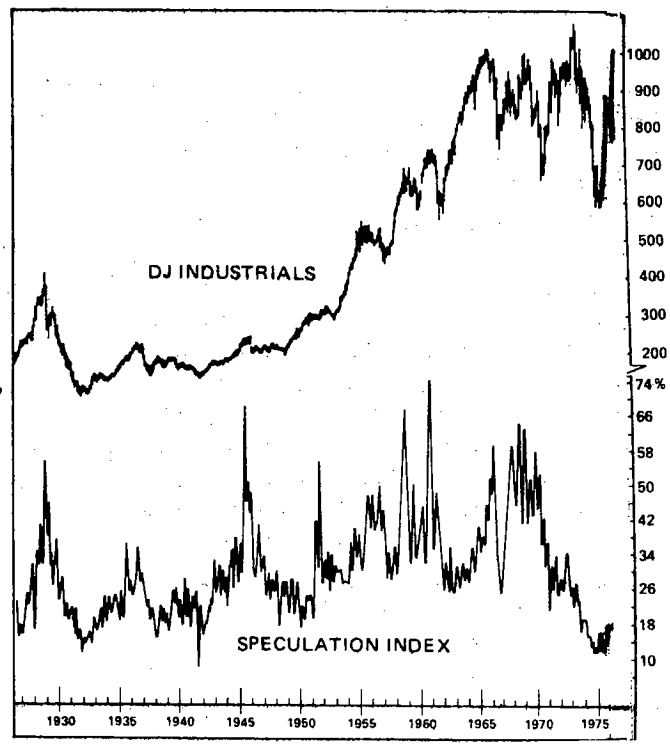
From the standpoint of the long-term investor it does not really matter. This bull market is now 16 months old. It is in its second psychological phase, and this is (as I have so often written) the most deceptive phase. The market will try to "fake out" the stockholders here, and it may do a good job of it. But I don't think the bull market is over—not by a longshot. And I don't think we've seen anything like the third, final and really speculative phase of this bull market.

I want to present one interesting and tell-tale example of comparative market action. This chart (courtesy of Indicator Digest, Palisades Pk., NJ 07650) shows the ratio of AMEX and NYSE volume. When speculation is rampant, volume on the AMEX flares, and the ratio rises. When the speculation dies, AMEX volume declines in relationship to NYSE volume and the ratio slides.

Note what happens to this "Speculation Index" during the various bull market third phases, such as during 1928-29, 1936-37, 1945-46, and during 1961 and 1965-66. We also saw a frothy, incredible bear market rally during 1968, but following that aberration the Speculation Index sank back into oblivion. Now examine the current level of the Index. During the entire 1974-76 phase of this bull market, the Index never got as high as 20%. That's hardly speculative third phase action.

The thought has occurred to me that the chart might be somewhat distorted by today's option market. Perhaps a good deal of the speculation that formerly took place on the AMEX has now switched to options. While this is possible, I do not think that option speculation has wiped out AMEX speculation, and the fact is that the ratio of the AMEX and NYSE volume has not yet pushed above the 20% level!

Therefore, I feel that this chart backs up my own thesis that the bull market is still in its second phase, with the third phase yet to come. "Yet to come?" you ask, "OK, but how far ahead does the third phase lie?" I don't know, and I'd be a fake if I implied that I did. But I do know that everything in today's markets tend to be more extended, pushed ahead, held off. Bull markets that used to take two or three years in the early 1900's now take ten to fifteen years; bear markets that used to last a year now last half a decade. For this reason, I would say that this bull market could last longer than any of us now think possible. The fact is that almost all the Wall Street crystal-ballers are ready to bury the bull market sometime this year or maybe in 1977. We'll see.



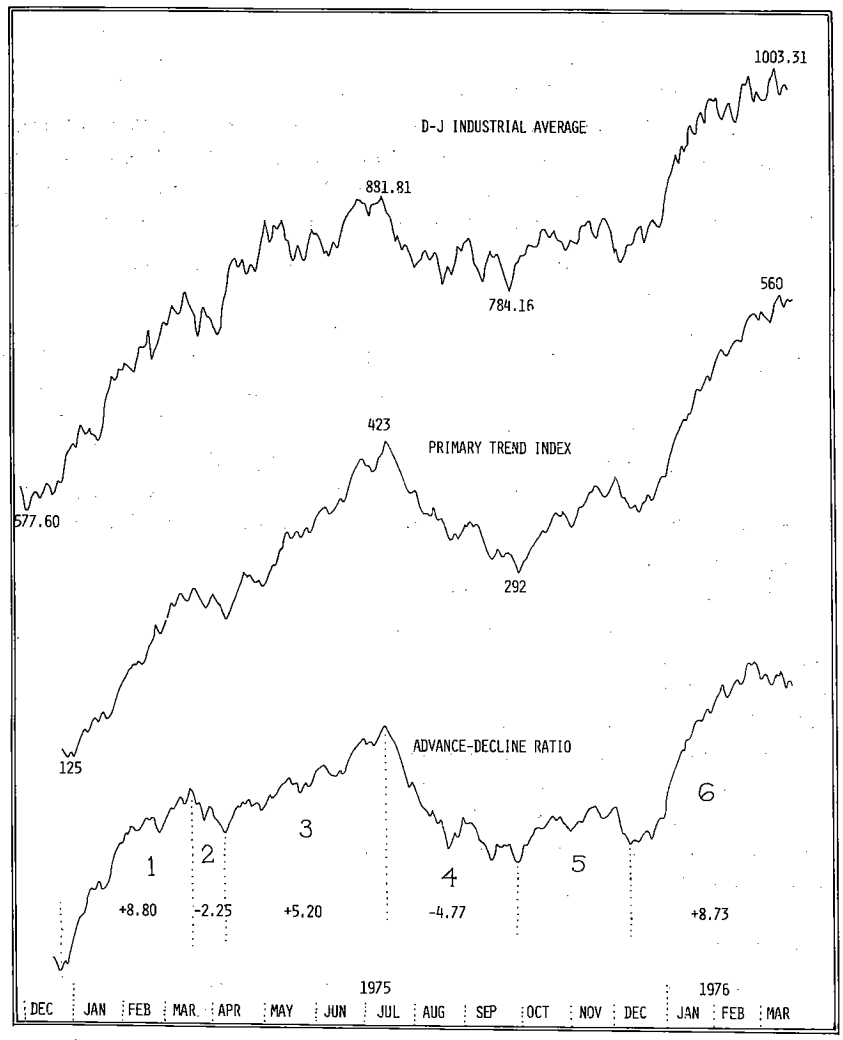
NEAR-TERM: In the last Letter I began by listing the bull market peaks for the various averages and indicators. Since that report, there have been some changes. The changes came in the form of a March 11 bull market high for the D-J Industrials and Transports as well as new bull market highs in the cumulative most-active stock index and the PTI. The important D-J 40-Bond Average hit a new high as late as March 17. But the February marks still stand for the Utility average, the Advance-Decline ratio and the daily new highs. I have presented the revised listing below.

'76 BULL PEAK	INDICATOR	PEAK VALUE
February 4	D-J Utility Average	91.90
February 20	Daily New Highs, NYSE	451
February 24	A-D Ratio, NYSE	-21.64
March 11	Cum. Most-Active Stock Index	-738
March 11	Primary Trend Index (PTI)	560
March 11	D-J Industrial Average	1003.31
March 11	D-J Transportation Average	211.51
March 17	D-J 40 Bond Average	72.31

One interesting facet of the situation is as follows. The D-J Industrials and Transport Averages recorded simultaneous bull market peaks on March 11. The instances in which a major secondary or primary top was recorded following joint highs by both Averages are rare. In the majority of cases, some kind of divergence or non-confirmation in the Averages appears prior to an important top. Thus, an orthodox warning of trouble, so far, has failed to appear in the Averages.

Many subscribers have written to remind me about the lagging Utility Average and the contraction of daily new highs on the March 11 push to Dow 1003.31. Dow's Theorywas formulated without reference to the Utility Average, but I believe I was among the first of the investment writers to bring attention to the barometric properties of the Utility Average (the real credit, I feel, must go to the late E. George Schaefer). At any rate, I am well aware of the Utility lag, but I nevertheless believe that it is safer to be guided mainly by the action of the Industrials and Transports. As for daily new highs, this is a lagging indicator during market advances, and in a continuing major bull swing there can be a lag of months in the daily new highs, followed by a sudden broadening of the market and then a new peak in the new high indicator.

So—— what does it all boil down to? What do we know and what don't we know?



(1) On March 15 (see accompanying chart) for the first time in 1976 the Advance-Decline ratio dropped more than 1 full point from a preceding peak. Since the market has been in a "buying stampede" phase ever since December 9, 1975, the A-D action of March 11 means that the buying stampede has ended. We are now correcting the buying stampede phase.

How far could the correction carry? Well, let's try a comparison. The 1975 buying stampede lasted 56 trading days while advancing the A-D ratio 8.80 points. The ensuing decline lasted 14 days while erasing 2.25 points from the A-D ratio. The 1976 stampede added 8.77 points to the A-D ratio (or to within 3/100th's of the first 1975 stampede). The correction has already lasted 19 days while erasing 1½ points.

(2) The D-J Utility Average, having topped on February 4 at 91.90, entered a three-week decline. Utilities hit a recent low of 85.79 on March 5. The Average then rallied to a little peak of 87.26 on March 11. From there Utilities backed off while holding above the March 5 low (even while the rest of the market was sinking). IF the Utility Average can now move above its March 11 high of 87.26, I believe such action will mean that the decline in the Utilities is over, and that a NEW Utility advance is underway. That would be decidedly bullish for the general market.

I use the Utility action in conjunction with the action of the D-J 40 Bond Average. On March 17 the 40 Bonds hit a 1976 high of 72.31. If Utilities can better 87.26 while the 40 Bonds continue their very bullish advance, I would take this as constituting a most bullish background for the general stock market. Veteran readers of these Letters know that I always consider a rising trend in both the Utility and the Bond Average to be a big plus for Wall Street.

(3) The Daily new highs have been contracting on the NYSE ever since February 20. This is, of course, a function of the sliding A-D ratio. But it also implies lagging momentum on the part of those stocks which were the leaders in the earlier part of the bull market. On the next advance, it is probable that new leadership will take over. In my opinion this new leadership will be more in the capital goods segment of the market than in the consumer sector.

(4) We know that we had simultaneous new highs in the D-J Industrials and Transportation Averages on March 11. The odds favor a new attack on the March 11 highs. If, on the next upward swing, one or both Dow Averages fail to better the February 25 peaks, we can expect something approximating a full secondary reaction or at least a period akin to July-October, 1975. On the other hand, if both Averages push to new highs and the A-D ratio confirms, we will in all probability have started on a new and major upward swing in this bull market's second phase. I will have plenty to say if that action occurs.

(5) The Primary Trend Index (PTI), as seen on the chart, recorded a peak of 560 on March 11. The PTI, an amalgam of eight

critical indices, was the strongest of all the indicators during 1976. Note the resistence to decline shown by the PTI in section #2 on the chart, and note again the strength of the PTI in section #5. Both periods portended strength for the general market.

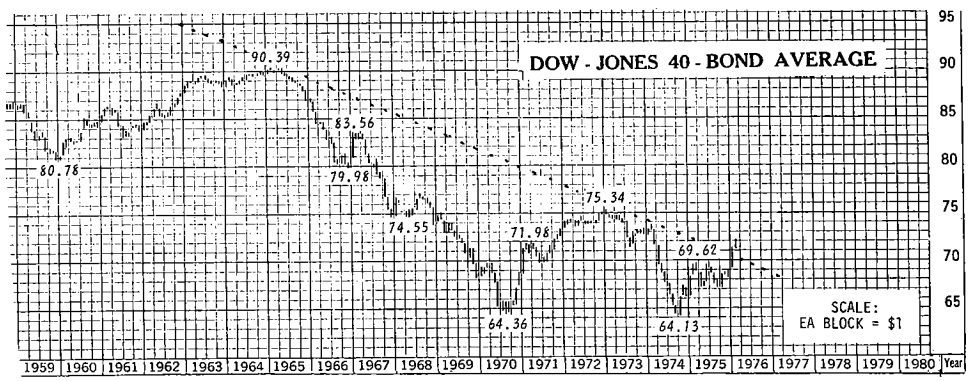
In other words, the PTI can provide excellent hints as to the underlying technical strength or weakness of the market. Since March 11 when the Averages first turned down, the PTI has been reluctant to give up much ground. Currently, the PTI is at 556, within easy striking distance of its 560 bull market high.

(6) The cumulative most-active stocks index (CMAS) is the indicator (along with the PTI) which has had the best record of accuracy during this bull market. This index is simply a running A-D line of the plurality of the 15 most-active stocks traded daily on the NYSE. So far, CMAS has continued, along with the PTI, to retain its outstanding strength. It is saying that despite the recent technical cross-currents, accumulation among the most actively traded stocks on the NYSE remains positive.

Conclusion: I can't hurry the market, and Wall Street is not interested in making Richard Russell's life a picnic. So far, I don't have enough evidence to say that this market is either going to push out here or fall back into an extended correction. Another push towards the highs by the Averages would tell me a lot more, but at this point the quality of the advances seems as uninspired as the quality of the declines. From the standpoint of a healthy bull market, I personally would prefer to see a lengthy period of consolidation-correction, perhaps lasting a number of months.

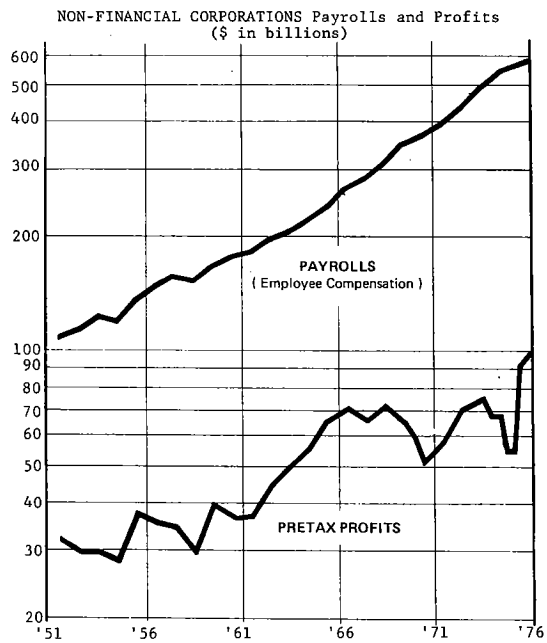
Remember, the current area has directly followed a three month period of the greatest volume in stock market history. Every action in the market (as anywhere else) gives way to a comparable but opposite reaction. Therefore, it should surprise none of us to see the high volume January-March period give way to a lower volume Spring and perhaps Summer consolidation. But the end result of it all should be higher prices and a snorting bull. That's the way I see it.

BONDS: I've written about this before, but here I go again. There is probably no more absurd notion (here in this era of high interest rates) than that of a bull market in bonds. Yet in many recent Letters I've pointed to the developing story as I see it from the facts. In the market I always like to separate the opinions and concepts from the facts. And that is why I find charts and statistics so fascinating. Because statistics and charts are facts. They tell you what has actually happened and what is happening.



I include this monthly chart of the broad D-J 40 Bond Average (courtesy of M. C. Horsey, Salisbury, Md. 21801). The fact we see here is not known by the great majority, including the great majority of Wall Streeters. The chart shows us that in February, for the first time in 12 years, a major declining trendline in the D-J 40-Bond Average has been reversed.

I find this a very encouraging and bullish indication, particularly since it has followed the extraordinary double Bond bottom of 1970-1974. I have said this before too, but I will say it again. IF the 40-Bonds can better their 1973 peak of 75.34 I will state that we are in a primary bull market in bonds (for whatever reason, you figure out the reason or reasons). The recent action of the 40-Bonds is very hopeful in that they have finally reversed a major bear trendline. Let's hope they "do it all" by bettering a preceding major top. I can't think of any action which would be more bullish for Wall Street and the stock market.



A STARTLING FUNDAMENTAL: One of the reasons for a possible bull market in bonds and certainly one reason for the bull market in stocks is shown on this chart (courtesy of Axe-Houghton Survey, Axe Castle, Tarrytown, NY 10591). As with the reversal in the Bond Average, it is a picture few people appreciate.

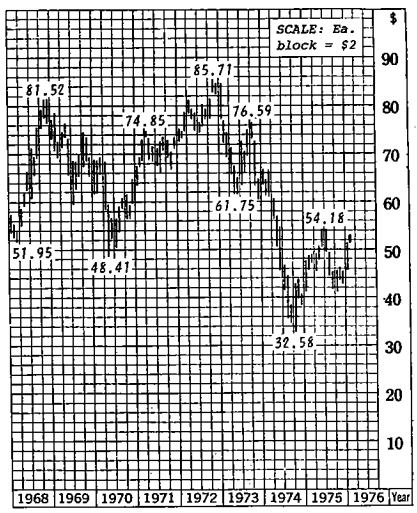
Over the past 9 years (first quarter 1966 to first quarter 1975) pre-tax profits of all non-financial corporations dropped 22%. That was an extraordinarily long period for profits to decline, and it ended with heavy corporate borrowings and a near-crisis in corporate liquidity.

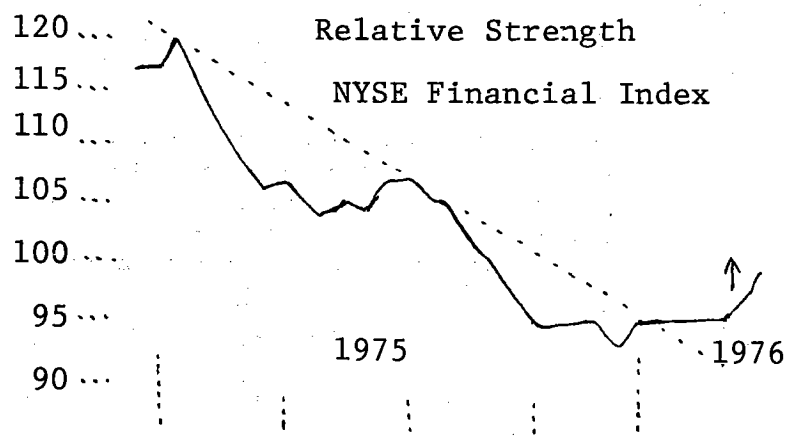
BUT, for the 9 months of March to December, 1975 (i.e., quarters ending in March and December), while payrolls were up only 6% (due to unemployment and decreased demands for wage boosts), pre-tax corporate profits exploded up 82%. This constituted the biggest profit reversal in a quarter of a century, and I mean it was a bullish reversal. If, in the period ahead, corporate profits continue to increase, those profits will serve to finance a good deal of the needed industrial expansion in the nation. In that

case, this internally generated corporate "new money" will take a major pressure off the bond market.

I want to emphasize that ironically, a continuing high rate of unemployment is bullish for corporate profits. Labor doesn't give a damn about profits, but it does care about jobs. When unemployment holds at a high level, labor "cools it" as far as wage demands are concerned. That action is obviously very bullish for corporate profits.

NYSE FINANCIAL INDEX





LATE DEVELOPMENTS: One of the frustrating and disconcerting things about writing a market report is that at times you have to throw out a whole section and slip in another piece which appears to have more relevance. I just wrote a whole section on Fibonacci (I'll save it for next time), and I'm substituting this section on the NYSE Financial Index.

Quietly, surreptitiously, the NYSE Financial Index has been sneaking up amid fear talk of "higher interest rates, collapsing European currencies and failing third nation treasuries." Although few people realize it, the NYSE Financial Index was the only segment (including Utilities, Industrials, Transportation and Composite) to fail to better the 1975 highs in 1976.

But today, a very dramatic situation is shaping up, and I don't think I have read a word about it anywhere else. Study the monthly chart of the NYSE Fin. Index (courtesy of Horsey again). Note that the 1975 high for the Index was 54.18. So far, that high has not been bettered in 1976, but such an event may happen soon. The relative strength chart of the Fin. Index is arrived at by dividing the index on the first and the middle of each month by the NYSE Composite Index. All during 1975 the RS of the Financials continued down. During the early part of 1976 the RS moved sideways. But over the last month we have an upside breakout. The Financials are TURNING STRONG!

The NYSE Financial Index contains over 200 stocks, including banks, insurance, small loans, S & L's, real estate. It contains the whole spectrum of the money industry, the industry that has been worrying everyone. And now that entire spectrum is starting to act better than the market. I consider that very bullish. I consider it the event of the month. And I think it could give new life to the market at this point.

I tie this in with the fact that the 40 Bond Index is near its 1976 high, and I tie this in with the fact that the D-J Utility Average has stopped going down and now is creeping up. And I come up with the concept that Wall Street is turning bullish on the whole financial segment of the market from real estate to banks, from S & L's to insurance stocks.

Last week, the Big Mac bonds of NY jumped 5 points and they are now only 9 points under their issuing price. If Big Mac's can rally, then there's hope for the whole financial spectrum of the market (and this was confirmed by last week's sudden pop in bank stocks). At any rate, that's the news of the week as I see it. Watch the NYSE Financial Index and the 54.18 peak of 1975. If the NYSE Fin. Index pushes above 54.18, I would say that it's highly bullish for Wall Street, the bull market and the nation.

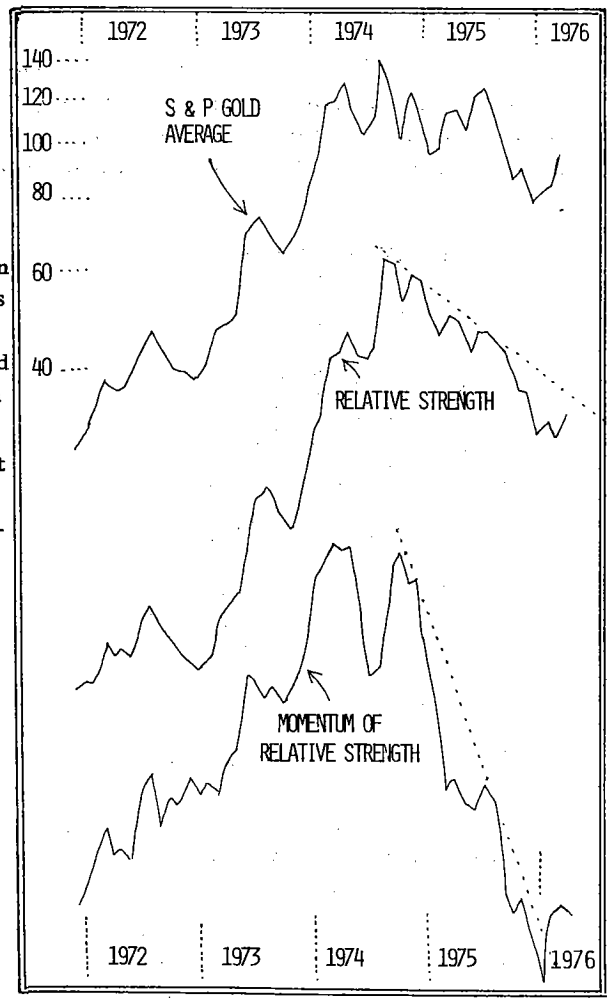
GOLD: It practically amounts to competitive devaluations across the board. The French franc is weak, the Italian lira is collapsing, the pound is pathetic, the Spanish paseta is in the cellar, the currencies of the Free World with the exception of the Swiss franc, the mark and the dollar seem to be falling apart. "Yeah," you say, "but what about gold? Why isn't gold rocketing to the moon?" My answer is that gold is a little different today. The world has now seen gold go up, and they've seen it come down. They now know that gold is like everything else, on a two-way street.

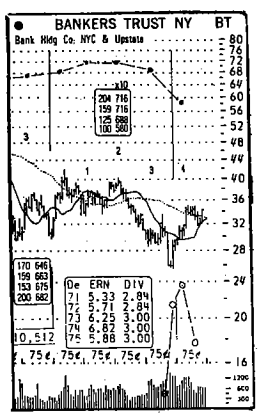
But the fact is that gold has obviously moved up against the weak currencies. If you're an Italian or Englishman, you have watched gold go up against your own currency. But the dollar has held fast against gold, and that's why Americans haven't been too fascinated with the yellow metal. How long can this last? I think it will last roughly as long as the trend of declining inflation in this country can last. And that could be longer than expected.

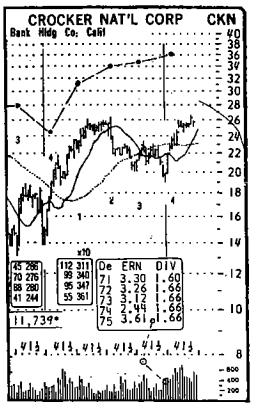
Last week Treasury Secretary Simon stated that he thought the rate of inflation could come down to around 2%. Most people thought this was pure political bunk. I did not. Simon is a veteran Wall St. bond man, and he is one of the few men in Washington who has any financial savvy as well as guts. I never write off what Simon says, And I believe that his observation about the waning inflation rate could just prove correct.

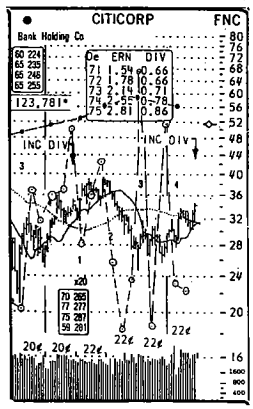
If so, we could see more of what I show on the gold relative strength chart (this page). That would amount to a continuation of the decline in the performance of gold shares compared with the general market. Mind you, this does not mean that golds are going to decline in actual price. It simply means that gold shares will not perform as well as the market. I still believe, based on my studies as presented here, that bullion has hit a bear market bottom and has turned up, and I still think that most gold shares (particularly North American shares) have seen their bear market bottoms.

That was the basis for my suggestion in recent Letters that subscribers take "pilot positions" in Homestake, Amgold (ADR's), Dome Mines and Camflo (the last two are Canadian, the first being listed on the NYSE and the second is over-the-counter). And that's all I have to say about gold in this Letter.

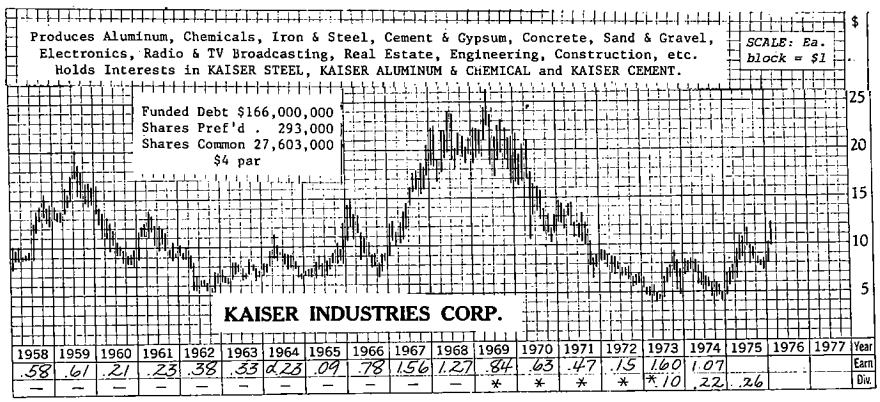








STOCKS: As per my feelings in the last report, I will say again that if you don't have enough stocks at this point, I would be a bit shy about coming in now. If you just have to add to your list, I would pick a few of the financials and probably the bank stocks. A cross section might include Crocker on the West Coast (record earnings and in very good shape). Then for good yield there is Bankers Trust and for higher quality there is Citicorp. I can't tell you exactly which one to pick or what package to pick, but you've got rising relative strength behind you in the Financials, and that's a big plus. (Bank stock charts courtesy of Quote, PO Box 213, Wichita, KA 67201).


Produces Aluminum, Chemicals, Iron & Steel, Cement & Gypsum, Concrete, Sand & Gravel, Electronics, Radio & TV Broadcasting, Real Estate, Engineering, Construction, etc.
Holds Interests in KAISER STEEL, KAISER ALUMINUM & CHEMICAL and KAISER CEMENT.
SCALE: Ea. block = $1
Funded Debt $166,000,000
Shares Pref'd . 293,000
Shares Common 27,603,000
$4 par
KAISER INDUSTRIES CORP.
1958 1959 1960 1961 1962 1963 1964 1965 1966 1967 1968 1969 1970 1971 1972 1973 1974 1975 1976 1977
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Kaiser Industries, recommended in the last Letter, is over 13 now, and lot's of buyers seem to agree with me that KI is a good assets play. KI was a frustrating number for seven years from 1960 to 1966 (note chart by Horsey), but during the 1968-69 blow-off KI shot to over 26. The stock is half that price now, and the chart looks good with an excellent five year bottom. At 13, KI is just moving out of the bottom, so I will say that I still like it, even at this price (it also fits in with my thesis about a coming move in the capital goods segment of the market).

FINAL STRETCH: About half the nation works for the Government now, and the Wizard of Id seems to have a remedy. Give this nation about another 10 years and the Wizard's words might prove a most accurate prediction.

THE WIZARD OF ID
By BRANT PARKER AND JOHNNY HART
IN ORDER TO ECONOMIZE I AM LAYING OFF TWENTY FIVE MUNICIPAL EMPLOYEES
YEA
RIGHT ON
WAY TO GO
ABOUT TIME!
3-17
....I'M CLOSING THE UNEMPLOYMENT OFFICE

As for the market, watch 87.26 on the Utility Average and 54.18 on the NYSE Financial Index. Bettering both would be bullish.

Next Letter to be mailed on April 2.